vouchers, to encourage privatization. Programs for low- and moderate-income families would be affected in several ways. Benefits from child nutrition programs would be targeted more toward lower-income families by abolishing the subsidies to families with incomes above 185 percent of the poverty threshold. Work requirements would be strengthened in Aid to Families with Dependent Children and in Food Stamps.

Retirement and Disability. The President proposes several changes for retirement and disability programs, many of which have appeared in several of his previous years' budgets. The Congress spent much of last year working on legislation to create a new retirement system for federal employees hired after 1984, but adopted none of the President's proposed changes to the current retirement system. There also were no legislative changes in the military or railroad retirement programs. In fact, the only reduction in these programs that would occur as a result of legislative action last year is the elimination of the cost-of-living adjustments (COLAs) for 1986 under the sequestration provisions of the Balanced Budget Act.

This year the President again proposes to limit COLAs, which accounts for 90 percent of the savings proposed in retirement and disability programs. COLAs would be eliminated in 1987 for military retirees and rail industry pensioners. The COLA would also be eliminated in 1987 for Civil Service and Foreign Service retirees and, in addition, their benefits would be increased in future years by 2 percentage points less than the Consumer Price Index (CPI). By 1991, Civil Service Retirement benefits would be 10 percent lower under this proposal than under current law.

Other proposals in Civil Service Retirement would reduce benefits for early retirement, change the basis on which benefits are calculated from the highest three years of salary to the highest five years, and change certain benefits to conform with treatment of similar benefits in Social Security. These latter two changes would also apply to Foreign Service Retirement.

In addition to the proposed outlay reductions in Civil Service Retirement, the President's budget proposes an increase of 2 percentage points in agency and employee contributions for retirement. The U.S. Postal Service and the District of Columbia would also be required to pay the full government share of their employees' retirement benefits. These changes would increase trust fund balances, but would have no effect on retirement outlays.

The Administration also proposes to reclassify certain Railroad Retirement beneficiaries so that they would receive the lower rail industry pension COLA instead of the Social Security COLA they currently receive. The President also proposes reducing the federal subsidy for windfall benefits received by some railroad retirees. The reduced federal subsidy would be covered by increased rail industry contributions.

Benefits in the Black Lung and Special Benefits for Disabled Coal Miners programs are indexed to changes in federal pay. The President proposes to limit federal pay increases to 3 percent in each year, lowering outlays in the two disability programs below the CBO baseline.

Housing Assistance. The President's budget would cut housing assistance sharply from current levels. For fiscal year 1986, the Congress has appropriated over $9.8 billion for the Department of Housing and Urban Development's (HUD) rental assistance and public housing programs. After the reductions required by the Balanced Budget Act, this amount is estimated to be sufficient to assist about 93,000 additional housing units, over 11,000 of which would be newly built units intended for elderly or handicapped households. Also included was funding for about 6,500 public housing units and $1.4 billion for modernizing existing public housing projects. The CBO baseline is based on the 1986 appropriation act and includes the amounts estimated to be necessary to provide for 93,000 additional units in each year.

The Administration's budget proposes that newly assisted units be limited to 50,000 per year starting in 1986. The budget also assumes that these subsidies would be in the form of five-year vouchers rather than the more traditional 15- to 20-year rental assistance contracts. No additional funding would be provided for the elderly, handicapped, or public housing construction programs. In addition to these changes, the President has proposed a one-year freeze on rent increases for much of the assisted housing inventory. Annual rent adjustments to allow for cost increases would resume in 1988. In order to further reduce program costs, HUD intends to reduce sharply the administrative fees paid to public housing authorities. It is anticipated that local governments would offset the lower federal payments. Together, these cuts would total $13.8 billion over five years.

The President's budget would also cut spending of the Public Housing Loan Fund, by a five-year total of $2.2 billion. New public housing construction would be eliminated. The modernization of existing projects, however, would continue. It is proposed that this activity be financed with federal grants rather than with the long-term direct loans now used. Since, under existing procedures, HUD provides both the direct loans and the payments necessary to amortize the loans, this proposal would have no effect on overall program costs. The Administration's budget includes limited modernization funding for 1986 and 1987, but assumes increased spending in 1988 through 1991.

Finally, public housing operating subsidies and other assistance would be cut by $0.9 billion over five years. The Administration proposes a reduction in operating subsidies in 1987, with moderate increases in later years, while CBO's baseline is based on the 1986 level, adjusted for inflation.

Nutrition Programs. The Administration's major proposal to reduce nutrition programs is to eliminate cash and commodity subsidies to children from families with incomes above 185 percent of the poverty level. In addition to this proposal, which was also included in last year's budget, the Administration proposes capping extra payments for breakfasts and lunches served in schools designated in "severe need," lowering summer food rates to be comparable with rates in schools and child care centers, eliminating the Nutrition Education and Training program, and eliminating administrative funding for child care audits.

Eliminating subsidies to children from families with incomes above 185 percent of the poverty level is estimated to save a five-year total of $4.5 billion. Subsidies would be eliminated for approximately 50 percent of the lunches and 10 percent of the breakfasts served in schools, 25 percent of the meals served in child care centers, 65 percent of the meals served in family day care homes, and 95 percent of the half-pints of milk served under the Special Milk program. Total program spending would be cut less dramatically because the per-meal subsidy is lower for the eliminated subsidies than for the remaining subsidies to children from low- and moderate-income families.

Although the proposal would not directly cut subsidies to families with incomes below 185 percent of poverty, some children from lower-income families would be affected if the schools they attend were to drop out of the program. The Administration assumes that no schools would discontinue the program and thus is showing slightly lower savings than CBO, which assumes some schools would drop out.

The Administration also proposes eliminating the Emergency Food Distribution and Shelter program, saving $0.4 billion over five years. The Nutrition Assistance program in Puerto Rico would receive a flat grant of $825 million annually, which is $0.4 billion below the baseline levels for 1987 through 1991. Proposed funding for the Supplemental Food Program for Women, Infants, and Children (WIC) equals CBO's baseline in 1987, but would save $0.2 billion over the next four years through small caseload reductions.

Aid to Families with Dependent Children (AFDC). The most far-reaching AFDC proposal in the President's budget would require most employable AFDC recipients to participate in a work-related activity, such as job search or workfare. CBO's estimate of the proposal shows costs to exceed savings in AFDC, while the Administration's estimate shows savings to exceed costs. Studies of job search programs, which often entail two to six weeks of search, have found them to save money on balance. The first adequate evidence on workfare programs should become available shortly, but until then their cost effectiveness is uncertain. Moreover, existing state workfare programs typically require participants to remain in workfare for only a few months, whereas the Administration's proposal would require continual participation for many AFDC recipients, adding to the proposal's cost. The proposal also generates sizable savings in Medicaid, which would more than offset CBO's estimated costs in AFDC. However, because the President's budget proposes a cap on the Medicaid program, these potential savings would not be realized by the federal government.

Other AFDC proposals, like work requirements, have in most cases been proposed before. These proposals would require that most mothers under 18 years of age live with their parents; remove an employable adult's benefits when the youngest child reaches age 16; and tighten the definition of an "essential" person. Together these proposals would save an estimated $125 million a year and affect about 175,000 families. In addition, matching rates on costs from automatic data processing systems would be reduced to 50 percent by 1990 and thereafter from the current 90 percent. Matching rates would also be reduced for a few states with administrative costs per recipient that are greater than 175 percent of the U.S. median.

<u>Food Stamps</u>. The President's budget proposes to reduce Food Stamp spending by repealing the program expansions authorized under the recently enacted Food Security Act of 1985. The repeal of increases in the asset limitation and in the earned income, dependent care, and shelter deductions, which are scheduled to occur May 1, 1986, is estimated to save less than $0.1 billion in 1986 and $1.2 billion over the following five years. The budget also proposes to eliminate some overlap of benefits between the Food Stamp Program and assistance received under the Low-Income Home Energy Assistance Act and the Job Training Partnership Act. These two proposals, considered but rejected during last year's farm bill debate, would together save an estimated $0.4 billion over five years.

The Administration would also modify the employment and training program authorized last December by increasing the percentage of work registrants required to participate to 25 percent in 1987, 50 percent in 1988, and 75 percent in 1989; adding an additional requirement of universal job search upon application; and reducing the federal share of administrative costs. CBO estimates that savings in the work program would be $0.1 billion annually. Lack of certainty about how either the existing program or the proposed program would be implemented make this estimate quite tentative. The budget also proposes to increase fiscal sanctions for states with high error rates. Based on the difficulty in collecting fiscal sanctions thus far, CBO estimates that the proposed 1987 sanctions would not be collected until 1990.

<u>Pension Benefit Guaranty Corporation (PBGC)</u>. The President's budget proposes an increase in the PBGC premium for the single employer plan from $2.60 to $8.10 per employee per year. This proposal has appeared in

several previous budgets. The CBO estimate of savings from the premium increase is significantly lower in the out-years than the Administration's because CBO assumes that the additional premiums would merely partially substitute for other receipts (transfers from trust funds).

Low-Income Energy Assistance. In the President's budget, the energy assistance program for low-income households would be funded at $2.1 billion through 1991. The CBO baseline is below this level in 1987 through 1989 because it reflects falling energy prices in the near term. Thus, the program would show costs through 1989 followed by savings in later years.

Refugee and Entrant Assistance. The Administration is proposing, beginning in 1987, that refugees become ineligible for AFDC and Medicaid and instead become eligible for yet-to-be-proposed cash and medical assistance under the refugee program. While this proposal increases budget authority for the refugee program, a corresponding decrease in budget authority would occur in AFDC and Medicaid. In addition, the Administration is proposing that refugees receive assistance only for the first 18 months after arriving in the United States, rather than for 36 months as under current law. After the first 18 months, refugees could become eligible for AFDC and Medicaid, but the states would not be reimbursed for their share of these costs.

Other. Other proposed changes in income security include those in Supplemental Security Income (SSI), Child Support Enforcement (CSE), and in the Department of Health and Human Services' management and research activities. The President's budget carries savings of $34 million a year in SSI. Because the proposed changes have not yet been specified, however, CBO shows no savings. In CSE, the lower federal match rate required under the Balanced Budget Act would be continued, and the match rate on automatic data processing would be reduced, leading to savings of $0.1 billion over the five-year period. In general departmental management, policy research, and the Office of the Inspector General, the President's budget requests constant budget authority throughout the 1987-1991 period, resulting in cumulative five-year savings of $0.3 billion compared to CBO's baseline.

CBO Reestimates

CBO reestimates raise the President's budget by $10.4 billion over the five-year period. More than three-quarters of the reestimate reflects different economic assumptions--mainly CBO's higher prices and thus COLAs but also CBO's higher unemployment rates. Technical reestimates total $2.3 billion over the period and are the net of many upward and downward reestimates in the various income security programs. The larger income security programs are entitlements, and the technical reestimates usually reflect differences either in projected numbers of beneficiaries or in average benefit levels per beneficiary, or in both.

FUNCTION 650: SOCIAL SECURITY

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 650: SOCIAL SECURITY (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	211.6	226.3	241.7	258.2	275.9	
Proposed Changes						
Administrative costs	0.1	-0.1	-0.2	-0.3	-0.4	-0.9
Total	0.1	-0.1	-0.2	-0.3	-0.4	-0.9
President's 1987 Budget as Estimated by CBO	211.6	226.2	241.5	257.9	275.5	
President's 1987 Budget	212.2	226.1	239.9	254.7	263.5	
CBO Reestimates	-0.6	0.1	1.6	3.2	12.0	16.4

Proposed Policy Changes

The President proposes no changes to Social Security cash benefits, but resubmits the proposal in last year's budget to reduce the number of Social Security Administration (SSA) employees to 63,000 by 1990--a reduction of 17,000 from the fiscal year 1984 level. This initiative, combined with a freeze in other administrative costs, would save about $0.9 billion over the next five years. On the other hand, the President's 1987 request for SSA administrative expenses is about $73 million higher in the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs than is assumed in the CBO baseline. In essence, the President's request for 1987 administrative expenses would restore much of the base reduction that occurred from the 1986 sequestration.

The Administration proposes these staffing reductions because of increases in productivity arising from the systems modernization program now under way at SSA. It is uncertain what the magnitude of these productivity increases might be. Last year the Congress appropriated more funds than the President had requested specifically to ensure that the proposed staffing reduction would not be undertaken so quickly as to jeopardize service delivery.

CBO Reestimates

CBO has reestimated the President's budget request upward by a total of $16.4 billion for 1987-1991. Most of this increase results from the higher cost-of-living adjustments (COLA) in the CBO economic assumptions. The difference is particularly significant in 1991, the year for which CBO projects a 4.3 percent COLA and the Administration shows no COLA, because it projects prices to increase by less than 3.0 percent. (Under current law, Social Security COLAs are delayed if the year-to-year price increase--measured on a third-quarter basis--is less than 3 percent.)

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 700: VETERANS' BENEFITS AND SERVICES
(By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	27.0	27.8	28.1	28.5	29.2	
Proposed Changes						
Medical Care						
Reduce number of patients	-0.3	-0.6	-0.9	-1.0	-1.0	-3.7
Require insurance reimbursement	-0.1	-0.1	-0.2	-0.2	-0.2	-0.7
Loan Guaranty	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Job Training	a/	-0.1	-0.1	-0.1	-0.1	-0.3
New GI Bill	a/	a/	a/	-0.1	-0.1	-0.2
Compensation	a/	a/	-0.1	-0.2	-0.6	-0.8
Other	a/	a/	-0.1	-0.2	-0.2	-0.5
Total	-0.6	-0.9	-1.4	-1.8	-2.3	-7.0
President's 1987 Budget as Estimated by CBO	26.5	26.9	26.7	26.7	26.8	
President's 1987 Budget	26.4	26.9	26.9	27.2	27.1	
CBO Reestimates	a/	a/	-0.2	-0.5	-0.3	-0.9

a. Less than $50 million.

Proposed Policy Changes

The President's 1987 budget for veterans' benefits and services proposes sharp reductions in spending for veterans' medical care, as well as changes in veterans' education, housing, and burial benefits.

Medical Care. The largest reductions proposed by the President in function 700 are in spending for medical care services provided by the Veterans Administration (VA). The outlays projected by the President over the 1987-1991 period are $4.4 billion below the CBO baseline. These spending cuts are to be achieved primarily through a reduction in the number of patients treated in VA health care facilities. In connection with this reduction, the Administration is again proposing a means test to assist the VA in identifying those veterans with the least need for free VA care. However, the President's requested budget authority levels would necessitate a reduction in the number of patients even if the means test were not enacted. The Administration has estimated that by 1991, hospital discharges and outpatient visits would each be reduced by 15 percent in order to achieve the spending reductions.

A means test for VA health care was also proposed in the President's 1986 budget but was rejected by the Congress in favor of a provision to require copayments by veterans without service-connected disabilities who have incomes above a certain level. The requirement of copayments, however, would reduce medical care outlays by far less than the Administration's means test. The Congressional proposal was included in the conference version of H.R. 3128, the 1986 reconciliation bill.

The President is also repeating his proposal to require third-party health care insurers to reimburse the VA for care provided to insured veterans without service-connected disabilities. The CBO estimates that the receipts from this proposal would be less than 60 percent of the amounts estimated by the VA, however. A similar provision was included in the conference version of H.R. 3128.

Loan Guaranty Revolving Fund. The 1987 budget includes a proposal to increase the origination fee required of veterans and others obtaining VA guaranteed and direct loans. The fee would be raised from its current level of 1.0 percent of the mortgage principal to 2.0 percent in 1987, 2.5 percent in 1988, 3.0 percent in 1989, and 3.8 percent in 1990 and thereafter. In his 1986 budget request, the President proposed that the origination fee be increased to 5.0 percent.

The VA estimate of the savings from this proposal assumes that the only effect would be an increase in fee collections. The CBO estimate, on the other hand, assumes that the rising fees would reduce the demand for loans and increase default rates. This results in a lower CBO estimate of savings in the out-years than that reflected in the President's budget.

Job Training. The President has not requested any funding for veterans' job training. Since the CBO baseline assumes that the job training program will be extended at the current level, the Administration's proposal would result in outlay savings of between $49 million and $66 million a year.

New GI Bill. The President has proposed to repeal the All-Volunteer Force Educational Assistance program (New GI Bill) starting on October 1, 1986, and to reinstate the Post-Vietnam Era Veterans' Educational Assistance program (VEAP). Under current law, this change is not scheduled to occur until June 30, 1988. The savings from the President's proposal result from the fact that the increase in VEAP outlays would not be as large as the reduction in New GI Bill spending, especially in 1990 and 1991.

Compensation. Even though the compensation program is not indexed by law, its benefits historically have been increased for inflation each year through legislation. Both the CBO baseline and the President's budget request reflect these out-year inflation increases. The President's budget, however, assumes significantly lower cost-of-living adjustments (COLAs) than are reflected in the CBO baseline. Because the compensation COLAs are discretionary, CBO's estimate of the President's budget uses the budget's assumed COLA levels.

Other. In a variety of medical and other accounts, the President's requested budget authority does not accommodate the full effects of inflation, which are assumed in the CBO baseline.

CBO Reestimates

In addition to the CBO reestimates of the impact of the President's legislative proposals, there are a number of reestimates of current law spending. Lower outlay estimates in compensation and pensions, resulting from lower average benefit projections, and a slower spending estimate in the Construction and Major Projects appropriation account cause the CBO estimate to be more than $900 million below the President's over the five-year period.

Credit Programs

The President's proposed increase in the loan origination fee would affect guaranteed loan commitments, in addition to lowering program outlays. The CBO estimates that the demand for new loans would fall by approximately 15 percent by 1991, because some marginal borrowers would no longer be able to qualify for mortgages after the higher fee level is added to the mortgage principal. Other borrowers may find conventional financing to be more advantageous in light of the higher fees. The Administration has assumed that the fee increase would not affect the demand for loans. These proposals are summarized in the table on the following page.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR BUDGET FUNCTION 700: VETERANS' BENEFITS AND SERVICES
(By fiscal year, in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
	Guaranteed Loan Commitments					
CBO Baseline	16.3	16.9	17.5	18.1	18.8	
Proposed Changes Loan Guaranty	-0.7	-1.1	-1.5	-2.1	-2.2	-7.0
President's 1987 Budget as Estimated by CBO	15.6	15.9	16.1	16.0	16.6	

FUNCTION 750: ADMINISTRATION OF JUSTICE

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 750: ADMINISTRATION OF JUSTICE
(By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	7.0	7.1	7.3	7.4	7.5	
Proposed Changes						
FBI and DEA	0.1	0.1	0.1	0.1	0.1	0.6
The Judiciary	0.1	0.2	0.2	0.2	0.2	0.8
Legal Services Corporation	-0.3	-0.3	-0.3	-0.4	-0.4	-1.7
Criminal Justice Assistance	-0.1	-0.2	-0.2	-0.2	-0.1	-0.9
Other Enforcement, Litigative, and Correctional Activities	0.2	0.3	0.3	0.2	0.2	1.2
Total	0.1	0.1	a/	0.1	0.1	0.1
President's 1987 Budget as Estimated by CBO	7.1	7.2	7.3	7.3	7.4	
President's 1987 Budget	6.9	7.0	7.1	7.1	7.2	
CBO Reestimates	0.1	0.2	0.2	0.2	0.2	1.0

a. Less than $50 million.

Proposed Policy Changes

Unlike most functions in the budget, the President is proposing to increase funding for the administration of justice in 1987 and to maintain spending at clsoe to the baseline level over the 1987-1991 period. Increased spending is being proposed for law enforcement, particularly drug enforcement, prison construction and maintenance, and federal litigative activities. These increases are partially offset by proposed reductions in legal services for the poor and justice assistance programs.

The Administration is requesting additional funding for the Federal Bureau of Investigation (FBI) and Drug Enforcement Administration (DEA) to increase personnel and acquire advanced technology. The requested 1987 budget authority for these agencies is $1.7 billion, compared with the CBO baseline of $1.6 billion. The planned increases are for additional FBI positions for foreign counterintelligence and support staffing, for additional DEA drug enforcement agents, and for the design and development of investigative computer capabilities. The Administration is requesting an additional $27 million in budget authority for implementation of a system to maintain privacy of investigative communications at these agencies. The budget includes spending for these agencies that is about $0.6 billion above the baseline for 1987-1991.

The President's budget includes additional spending for judicial activities, largely for supporting personnel, especially clerks for bankruptcy offices. Increases over the baseline are also requested for other Department of Justice activities, including litigation and operation of the federal prison system. Total outlays for the department's litigative and correctional activities would be about $1.1 billion above the baseline over the 1987-1991 period, and spending for other law enforcement agencies would be about $0.2 billion above the baseline for the five-year period.

The President is also proposing selected reductions in this function. As in previous years, this budget proposes to terminate the Legal Services Corporation in 1987, with savings of $300 million to $400 million annually relative to the CBO baseline. Unobligated funds for justice assistance would be rescinded in 1986 and programs reduced or eliminated in 1987. Grants for juvenile justice and delinquency programs, as well as state and local assistance, Mariel Cubans, and the regional information sharing system would be terminated. In addition, the Administration is proposing to limit obligations from the Crime Victims fund to $35 million in 1987 and later years. Spending reductions for justice assistance would total $0.9 billion from 1987 through 1991.

CBO Reestimates

Based on historical spending rates, CBO estimates slightly higher spending than the Administration for programs in this function.

FUNCTION 800: GENERAL GOVERNMENT

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 800: GENERAL GOVERNMENT (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	5.7	5.9	5.9	6.2	6.3	
Proposed Changes						
Internal Revenue Service	0.5	0.8	1.0	1.1	1.1	4.5
Legislative Branch	0.2	0.2	0.1	0.1	0.1	0.7
Government-sponsored Enterprise Fees	a/	-0.2	-0.5	-0.7	-1.0	-2.4
Customs Fees	-0.5	-0.5	-0.5	-0.5	-0.5	-2.5
Federal Financing Bank	0.2	0.2	0.4	0.3	0.2	1.3
Other	0.1	---	---	-0.1	-0.1	-0.1
Total	0.5	0.5	0.5	0.2	-0.2	1.5
President's 1987 Budget as Estimated by CBO	6.2	6.4	6.4	6.4	6.0	
President's 1987 Budget	6.1	5.7	6.1	5.9	5.6	
CBO Reestimates	0.1	0.7	0.3	0.5	0.4	2.0

a. Less than $50 million.

Proposed Policy Changes

The President is proposing increased funding for general government activities that, when offset by proposed user fees, would result in outlays $1.5 billion above the baseline over the 1987-1991 period. The largest increase is for the Internal Revenue Service, to fund several initiatives aimed at increasing revenue collections, including the hiring of 7,500 new examiners beginning in 1987. Additional spending would be more than $1.0 billion a year by 1990, and would total $4.5 billion over the five-year period. Increases above the baseline are also requested for many legislative branch accounts.

The budget also assumes enactment of the conference provisions of H.R. 3128, the Consolidated Omnibus Budget Reconciliation Act of 1985, which authorize the Customs Service to collect user fees for the processing of passengers and commercial carriers entering the United States. The Administration intends to propose additional fees for the processing of merchandise, with total collections from customs fees estimated to be $0.5 billion annually.

The budget includes a proposal, similar to one in the 1986 budget, to levy an annual fee on debt and other securities issued by government-sponsored enterprises, beginning in 1987. The affected enterprises include the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Student Loan Marketing Association (Sallie Mae), the Farm Credit System, and the Federal Home Loan Bank System. The fees would vary among institutions according to the extent of government risk. Fees would begin at 0.1 percent for net new debt issued in 1987, except for the Farm Credit System, which would start at a fee of 0.01 percent. By 1991, fees on net new debt would rise to 0.5 percent for Fannie Mae and the Farm Credit Banks, and to 0.15 percent for the other affected enterprises. These fees would raise $2.4 billion over the 1987-1991 period, as larger amounts of debt become subject to the annually increasing fees. (These fees are discussed further in Appendix A.)

The budget also proposes to show the surplus income of the Federal Financing Bank in the net interest function of the budget rather than in the general government function, which would increase general government outlays by $1.3 billion over five years, but would have no net effect on the budget.

CBO Reestimates

The budget assumes that renewed efforts to identify and sell surplus federal property would raise about $1.5 billion over the 1987-1991 period. Because earlier attempts by the Administration to sell property fell substantially short of stated goals, CBO estimates that surplus property sales will result in receipts of only $0.3 billion over the next five years. For a number of other programs, CBO has estimated outlays greater than in the budget, based on historical patterns.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE
(By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	6.2	6.6	6.7	6.8	6.9	
Proposed Changes						
Elimination of General Revenue Sharing	-4.2	-4.6	-4.6	-4.6	-4.6	-22.6
Payments to states, mineral and timber receipts cost sharing	-0.2	-0.2	-0.3	-0.3	-0.3	-1.3
Other	a/	a/	0.1	0.1	0.1	0.3
Total	-4.4	-4.8	-4.8	-4.8	-4.8	-23.6
President's 1987 Budget as Estimated by CBO	1.7	1.8	1.9	2.0	2.1	
President's 1987 Budget	1.7	1.8	1.9	2.0	2.0	
CBO Reestimates	a/	a/	a/	a/	0.1	0.1

a. Less than $50 million.

Proposed Policy Changes

The President's budget proposes a sharp reduction in general purpose fiscal assistance funds provided to state and local governments, largely by eliminating General Revenue Sharing (GRS). Total spending for the function would decline from $5.9 billion in 1986, to $1.7 billion in 1987, with slight increases thereafter.

Between 1981 and 1985, GRS provided $4.6 billion annually in unrestricted grants to approximately 39,000 local governments--counties, municipalities, townships, and Indian tribes. For 1986, the Congress reduced funding to $4.2 billion, before reductions required by the 1985 Balanced Budget and Emergency Deficit Control Act. Elimination of GRS, including a rescission of the fourth quarterly payment for 1986, would result in savings from the CBO baseline of approximately $4.2 billion in 1987 and $4.6 billion annually thereafter, for total savings over five years of $22.6 billion. The Administration argues that local governments have become less dependent on revenue sharing funds and that the federal government can no longer afford the program.

The President's budget would also reduce the amount of federal timber and mineral receipts shared with state and local governments by calculating their share after deducting collection costs. Currently the states' and counties' share of such receipts is calculated by the Forest Service and Bureau of Land Management as a percentage of gross, not net, receipts. CBO estimates that this proposal would result in savings of approximately $240 million in 1987, increasing to $270 million in 1991.

CBO Reestimates

CBO's outlay estimates do not differ significantly from the Administration's estimates for this function.

FUNCTION 900: NET INTEREST

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 900: NET INTEREST (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	145.0	154.4	157.6	159.1	160.3	
Proposed Changes						
Public Debt	-1.2	-3.4	-6.5	-10.1	-13.9	-35.1
HUD Interest	1.4	1.5	1.6	1.7	1.8	8.0
Federal Financing Bank	0.1	0.3	0.5	0.7	1.1	2.7
SBA Interest	-0.4	0.1	0.2	0.3	0.3	0.5
Sale of Bonneville Power Administration	0.0	0.0	0.2	0.2	0.2	0.6
Other	-0.2	-0.2	-0.3	0.2	-0.1	-1.1
Total	-0.2	-1.7	-4.4	-7.4	-10.7	-24.4
President's 1987 Budget as Estimated by CBO	144.7	152.7	153.2	151.7	149.6	
President's 1987 Budget	148.0	145.1	136.0	125.6	115.9	
CBO Reestimates	-3.3	7.6	17.2	26.1	33.8	81.4

Proposed Policy Changes

The largest change in net interest spending in the budget occurs because the Administration's projected deficits are lower than those contained in the CBO baseline. The lower deficits are the consequence of the proposed spending cuts, which reduce the government's borrowing needs and its interest costs. These interest savings rise dramatically over time, from $1.2 billion in 1987 to $13.9 billion in 1991.

Several of the proposals would increase net interest outlays compared with the CBO baseline. The largest of these is the forgiveness of an interest